

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF FREMONT	County NEWAYGO
Fiscal Year End JUNE 30, 2007	Opinion Date OCTOBER 5, 2007	Date Audit Report Submitted to State 10/9/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES                                 | NO                       | Check each applicable box below. (See instructions for further detail.)                                                                                                                                                                                                                                                                   |
|-------------------------------------|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.                                                                                                                                        |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.                                                                                                                                    |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.                                                                                                                                                                                                                               |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. The local unit has adopted a budget for all required funds.                                                                                                                                                                                                                                                                            |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. A public hearing on the budget was held in accordance with State statute.                                                                                                                                                                                                                                                              |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.                                                                                                                                                |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.                                                                                                                                                                                                                       |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. The local unit only holds deposits/investments that comply with statutory requirements.                                                                                                                                                                                                                                                |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).                                                                                                                 |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. The local unit is free of repeated comments from previous years.                                                                                                                                                                                                                                                                      |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. The audit opinion is UNQUALIFIED.                                                                                                                                                                                                                                                                                                     |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).                                                                                                                                                                                      |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. The board or council approves all invoices prior to payment as required by charter or statute.                                                                                                                                                                                                                                        |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. To our knowledge, bank reconciliations that were reviewed were performed timely.                                                                                                                                                                                                                                                      |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	No single audit or other reports required	
Certified Public Accountant (Firm Name) BRICKLEY DELONG, PLC		Telephone Number 231-726-5800	
Street Address 316 MORRIS AVE., SUITE 500		City MUSKEGON	State MI
Zip 49443			
Authorizing CPA Signature <i>Timothy D. Arter, CPA</i> for Brickley De Long, PLC		Printed Name TIMOTHY D. ARTER	License Number 10253

City of Fremont  
Newaygo County, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended June 30, 2007

City of Fremont

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This discussion and analysis is intended to serve as an introduction to the City of Fremont's (City) basic financial statements. This report consists of a series of financial statements for the City as of June 30, 2007. The City's basic financial statements are comprised of three components:

1. Governmental-wide financial statements
2. Fund financial statements
3. Notes to financial statements

The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City operations in more detail than the government-wide financial statements.

This report also contains other required supplementary information in addition to the basic financial statements themselves.

### **FINANCIAL HIGHLIGHTS**

- At the close of the fiscal year the City of Fremont had total assets of \$32,655,040 and total liabilities of \$2,353,166 leaving net assets of \$30,301,874, an increase of 4.6% in the City's overall net assets.
- Of the total \$30,301,874 in net assets, the City may use \$6,781,483 (unrestricted net assets) to meet the ongoing obligations to citizens and creditors.
- Total revenues, including all program and general revenues, were \$6,241,011, comprised of governmental revenues of \$4,860,615 and business-type revenues of \$1,380,396. Revenues for the component units totaled \$478,919.
- Total expenses for all of the City's programs were \$4,914,597. Of that total, the governmental expenses were \$3,888,276 and the business-type expenses were \$1,026,321. Expenses for the component units were \$513,887.
- The City was able to maintain the number, type and current levels of City services to its citizens with no increase in its property tax levy, even in the face of a 36.7% cut in state-shared revenues over the past few years and increasing operating costs.
- Many municipal government financial advisors recommend maintaining unrestricted fund balances at approximately 25% of annual operating costs to allow for sufficient working capital and emergency funding throughout the upcoming year. The City of Fremont's ending fund balance for the fiscal year is approximately 54% of projected costs for FY 2007/08.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

#### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. The statements are similar to those of a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. The City reports all changes in net assets when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The government activities of the City include general government, public safety, public works, community and economic development, and cultural and recreational activities. The business-type activities of the City include water distribution and sanitary sewer services.

The Statement of Net Assets and the Statement of Activities include not only the City of Fremont itself (known as the primary government), but also discretely presented component units. Component units are separate legal entities for which the City has some level of financial accountability. The City has two component units shown on the Statement of Net Assets and Statement of Activities: the Downtown Development Authority (DDA) and the Local Development Finance Authority (LDFA). The component units exist primarily for the issuance and repayment of debt to finance capital projects in specific commercial and industrial areas of the City. In addition, the City has a new discretely presented component unit, the Fremont Community Joint Planning Commission (Commission) which began official operations on January 1, 2007. Because the Commission has a December fiscal year end, it will not appear in the financial statements until next year.

#### **Fund Financial Statements**

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources, uses and balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Major Streets, Local Improvement and Capital Projects funds, which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

### **Proprietary Funds**

The City of Fremont has two enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution and sanitary sewer operations. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail.

### **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

### **Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Recall that the statement of net assets provides the perspective of the City as a whole. The following table provides a summary of the City's net assets. As of June 30, 2007 the City's net assets from governmental activities totaled \$17,229,989 and \$13,071,885 from business-type activities, for a government-wide net asset total of \$30,301,874.

In examining the composition of net assets, the reader should note that the amount of governmental activities invested in capital assets (i.e., streets, buildings, furniture and equipment, etc.) are used to provide services to the residents, and are not available to pay salaries or operational expenses or to fund capital projects.

Governmental current and other assets, capital assets and non-current liabilities increased by \$1,421,369, \$845,201 and \$1,541,846, respectively, mainly due to reconstruction of the northeast block Downtown parking lot, alley and sidewalk area within the northern one-half of the block. The Fremont Market Place pavilion was also constructed in the middle of the parking lot area for the purpose of main-staging a local farmer's market and other multi-purpose uses. Current assets also increased due to an increase in unrestricted net assets.

Business-type activities current assets increased, reflecting the increase in unrestricted net assets, due to the City holding off on major construction projects until the following construction season. The business-type activities have no long-term debt other than compensated absences.

### **NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current assets and other assets	\$ 5,446,767	\$ 4,025,398	\$ 3,877,008	\$ 3,411,366	\$ 9,323,775	\$ 7,436,764
Capital assets	14,086,308	13,241,107	9,244,957	9,286,299	23,331,265	22,527,406
Total assets	19,533,075	17,266,505	13,121,965	12,697,665	32,655,040	29,964,170
Current liabilities	568,154	754,412	34,311	26,443	602,465	780,855
Noncurrent liabilities	1,734,932	193,086	15,769	14,769	1,750,701	207,855
Total liabilities	2,303,086	947,498	50,080	41,212	2,353,166	988,710
Net assets						
Invested in capital assets, net of related debt	13,060,713	12,885,724	9,244,957	9,286,299	22,305,670	22,172,023
Restricted	1,214,721	1,091,121	-	-	1,214,721	1,091,121
Unrestricted	2,954,555	2,342,162	3,826,928	3,370,154	6,781,483	5,712,316
Total net assets	\$ 17,229,989	\$ 16,319,007	\$ 13,071,885	\$ 12,656,453	\$ 30,301,874	\$ 28,975,460

The results of this year's operations for the City as a whole are reported in the statement of activities, which shows the changes in net assets.

### CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues						
Charges for services	\$ 832,138	\$ 677,251	\$ 1,257,826	\$ 1,279,297	\$ 2,089,964	\$ 1,956,548
Operating grants and contributions	446,189	427,604	-	-	446,189	427,604
Capital grants and contributions	687,431	1,013,489	2,100	3,605	689,531	1,017,094
General revenues						
Property taxes	2,152,128	2,031,492	-	-	2,152,128	2,031,492
Franchise fees	36,972	34,027	-	-	36,972	34,027
Grants and contributions not restricted	408,610	421,921	-	-	408,610	421,921
Unrestricted investment earnings	264,699	171,639	120,470	104,789	385,169	276,428
Miscellaneous	3,765	14,249	-	-	3,765	14,249
Gain on sale of capital assets	28,683	60,735	-	-	28,683	60,735
Total revenues	4,860,615	4,852,407	1,380,396	1,387,691	6,241,011	6,240,098
Expenses:						
General government	774,365	817,771	-	-	774,365	817,771
Public safety	1,194,744	1,162,576	-	-	1,194,744	1,162,576
Public works	1,533,330	1,423,711	-	-	1,533,330	1,423,711
Community and economic development	125,994	198,462	-	-	125,994	198,462
Culture and recreation	206,571	201,942	-	-	206,571	201,942
Interest on long term debt	53,272	23,854	-	-	53,272	23,854
Sewer Fund	-	-	579,213	566,735	579,213	566,735
Water Fund	-	-	447,108	431,780	447,108	431,780
Total expenses	3,888,276	3,828,316	1,026,321	998,515	4,914,597	4,826,831
Change in net assets before transfers	972,339	1,024,091	354,075	389,176	1,326,414	1,413,267
Transfers	(61,357)	(76,488)	61,357	76,488	-	-
Change in net assets	910,982	947,603	415,432	465,664	1,326,414	1,413,267
Net assets - Beginning	16,319,007	15,371,404	12,656,453	12,190,789	28,975,460	27,562,193
Net assets - Ending	\$ 17,229,989	\$ 16,319,007	\$ 13,071,885	\$ 12,656,453	\$ 30,301,874	\$ 28,975,460



### Governmental Activities

- For the year ended June 30, 2007, governmental activities net assets increased by \$910,982 (5.6%).
- Although overall operating revenues increased more than \$330,000, grant revenues decreased by \$326,058, leaving a net increase of only \$8,208 (0.2%).
- Property tax revenues increased \$120,636 (5.9%) despite the negative impact of the limits placed on the City by the "Headlee" and "Proposal A" Amendments to the State Constitution and the negotiated settlement of the Gerber Products Company's Michigan Tax Tribunal filing. The City's millage rate remained at 14.0 mills, where it has been for the past nine years.
- Fortunately, interest rates continued to rise during the year earning the City an additional \$93,060 of investment income, a 54.2% increase.
- Expenses increased by only \$59,960 (1.6%), allowing some increase in net asset reserves for the governmental activities as a whole.

### Business-Type Activities

- For the year ended June 30, 2007, business-type activities net assets increased by \$415,432 or 3.3%.
- Although charges for services slightly decreased, investment earnings gave business-type activities an additional \$120,470 for spending, an increase of \$15,681 (15.0%) from last year.

### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As stated earlier in this Management's Discussion and Analysis, the City of Fremont uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2007 fiscal year, the governmental funds reported a combined fund balance of \$4,345,139. Of this number, \$2,972,928 represents the unreserved fund balance, comprised of \$1,555,974 in the General Fund and \$1,416,954 in other governmental funds. It is necessary to further distinguish between unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to advances of \$59,194, perpetual care of \$296,286, debt service of \$30,988, capital projects of \$886,840, and other reservations of \$98,903.

The General Fund is the chief operating fund of the City. The General Fund pays for administration, public safety, general public works, elections, legal, recreation, garbage collection, boards and commissions and other minor functions. The General Fund ended the year with a fund balance of \$1,654,877, a \$421,962 increase from fiscal year 2006. The unreserved fund balance of the General Fund was \$1,555,974. The health of the General Fund may be measured by the ratio of unreserved General Fund balance to annual General Fund expenditures. Unreserved fund balance represents 53% of the General Fund expenditures.

General Fund revenues exceeded expenses by \$528,960 before transfers. After transfers, the net change in fund balance was an increase of \$421,962. Combined with a beginning fund balance of \$1,232,915, the General Fund had an ending fund balance of \$1,654,877. Overall and in comparison to the previous year, General Fund revenues increased by \$189,675 and expenditures decreased by \$43,604. The increase in revenues is principally from property taxes and investment earnings and the decrease in expenses is due to less spending in capital expenditure items within the fund. Most of the reason for the increase is fewer transfers to other funds which were done in the previous year for grant matching purposes.

Although state shared revenues (gas and weight tax, etc.) remained stagnant, both Major Streets and Local Streets funds financed reconstruction and resurfacing projects that were needed.

The City continues to help fund special assessment projects through the Local Improvement Fund, a portion of which is later assessed back to property owners benefiting from the projects.

### Proprietary Funds

The City's proprietary funds provide the same type of information found in the governmental financial statements, but in more detail. For the year ended June 30, 2007, net assets of the Sewer Fund decreased by \$29,167 and net assets of the Water Fund increased by \$443,971.

Although the Sewer Fund's net assets decreased due to depreciation expense, the Fund remains healthy as shown on the Statement of Cash Flows. As this statement indicates, sewer operations generated \$156,034 in cash flow, leaving available cash and investments at year end of \$1,472,887.

The City had been anticipating the need for expanding the City's wastewater irrigation system within a few years, but the MDEQ recently granted the City permission to raise the retaining berms on the existing wastewater retention lagoons. This enhancement has been completed and should extend the City's wastewater capacity by 70%, giving the City opportunity to grow before having to expand the facility.

High depreciation expense in the Sewer Fund is due primarily to Gerber Products Company's food processing wastewater irrigation system. The City coordinated a Community Development Block Grant (CDBG) through the State of Michigan in 1996-97 to help replace key components of Gerber's existing food production wastewater treatment system. The City continues to own the system but leases it to Gerber, which is responsible for all operation, maintenance, repair and replacement costs.

### Budget Analysis – General Fund

At various times throughout any budget year, budget amendments are needed to reflect changing financial conditions and changes to financial policy.

The most significant of this year's budget amendments were:

- Police Department expenditures were amended from \$599,925 up to \$616,925 to reflect the purchase of an in-car police camera system made possible by a grant and for additional wages to cover new community events.
- Fire Department expenditures were amended from \$257,750 up to \$274,050 to reflect small equipment purchases and burn camp sponsorships made possible by a FEMA grant and community donations.
- The Streets, Street Lighting and Sidewalk Department expenditures were amended from \$297,000 up to \$312,000 because utility/energy costs have risen dramatically in the last year.

- Employee fringe benefits and other items were amended from \$616,800 down to \$591,800 for two reasons. First of all, the tax tribunal refunds budget was reduced from \$60,000 to \$20,000 to reflect a more favorable settlement at the tax tribunal with Gerber Products. Second, the retirement portion of the fringe benefits budget was amended up by \$15,000 to reflect an increase in salaries.
- Parking systems expenditures were amended from \$90,000 down to \$50,000 because a 'way-finding' signage system was not implemented, due to ongoing negotiations with MDOT for approval.
- Transfers out were amended from \$112,860 up to \$192,845 to move grants and donated funds for a civic art sculpture project to the fund accounting for the project.

As a result of unexpected changes in revenues and expenditures in the General Fund, the City has variations between budgeted items and actual. Property tax revenue exceeded the final budget due to Board of Review adjustments and higher than anticipated penalties. Investment earnings revenue exceeded the final budget because several projects were delayed resulting in more cash on hand to invest during the year. Other revenue exceeded the final budget because of an unbudgeted reimbursement from Gerber Products for legal and appraisal fees regarding settlement of the Tax Tribunal case. Police Department expenditures were lower than the final budget due to less activity in the summer than originally anticipated. Capital outlay expenditures were less than budgeted due to some capital outlay projects coming in lower than originally anticipated and budgeted sidewalk work not being done this year. Transfers out were lower than budgeted because projects requiring a General Fund match in other funds were delayed until the following fiscal year.

### Capital Asset Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2007 totaled \$23,331,265 (net of accumulated depreciation.) Investments in capital assets include land and land improvements, buildings and improvements, infrastructure (including utility systems), furniture and equipment.

Major projects included final installation of perimeter animal-control fencing at the airport, installation of the Yahaba Friendship City Program civic art sculpture in front of the municipal building, street reconstruction and new streetlighting & sidewalks along West Main Street, and complete reconstruction of the northeast Downtown block including parking, alleys, sidewalks and landscaping and installation of the new Fremont Market Place pavilion. Additional information on capital assets can be found in Note D of the Notes to Financial Statements.

### Debt Administration

As of June 30, 2007, the City had outstanding long-term liabilities of \$1,982,594 consisting of a capital improvement bond, an installment purchase agreement and compensated absences. During the year, the City issued the 2006 Capital Improvement Bonds in the amount of \$1,700,000.

There is no outstanding long-term debt in any of the City's discretely presented component units.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The general operating budget for fiscal year 2007-2008 is based on the continuation of the existing 14 mill property tax levy from fiscal year 2006-2007. The City's Charter permits a maximum tax levy of 20 mills for general operating purposes, but the City has been able to keep its levy at this relatively low level for the last nine years. If needed, an additional 6 mills (less a small Headlee millage rollback) could generate an additional estimated \$900,000 for general operating purposes.

Property tax revenue increases are greatly influenced by the 1994 Amendment to the State Constitution commonly referred to as "Proposal A." The statewide tax reform amendment limits the growth in "taxable value" on any individual property to the lesser of inflation or five percent (5%). Because some properties may increase in value by less than inflation, the mathematical result of this is that the total taxable value may grow at a rate less than inflation. Property taxes are based on this artificially capped "taxable value" until such time as the property is sold. Then, the taxable value is uncapped and increases to match the "assessed value," which by law must represent 50% of the estimated "true cash value" of the property. Thus, "new property owners" pay a disproportionate amount of property taxes in relation to their neighbors, who may not have sold their properties since 1994 and have had their taxable values capped as noted above.

The City has responded to the economic downturn and pressure on revenues by trying to keep program expenses constant and increasing some user fees. The budget for fiscal year 2007-2008 reflects expenditure reductions in many departments including capital spending.

The General Fund budget for fiscal year 2007-2008 decreased by \$97,000 compared to the amended budget for expenditures for the year ended June 30, 2007. There are no plans to decrease the General Fund fund balance next year, beyond the following planned transfers to the Downtown Development Authority Fund in the amount of \$52,000 for administration of the Downtown Rental Rehab program and the Downtown Facade Renovation program; \$43,550 to the Local Street Fund for 50% of Local Street Fund construction; and \$54,000 to the Capital Projects Fund for various airport projects.

For other funds, the City has budgeted to use fund balance reserves of \$1,500,000 to fund many of its projects, some being projects that were delayed until the new fiscal year.

For the City's business-type activities, the budget fiscal year 2007-2008 holds water and sanitary sewer rates constant, with a planned rate study to possibly fund future system expansions. The Water Fund budget includes \$510,600 in capital construction and the Sewer Fund budget includes \$138,250 in capital construction.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, residents, voters, customers and investors with a general overview of the City's finances as well as to depict the City's accountability for the money it receives and spends. If you have questions about this report or need additional information, please contact Finance Director/City Clerk Todd Blake at the City of Fremont, 101 E. Main Street, Fremont, MI 49412 or by phone at 231-924-2101 or by email at [tblake@cityoffremont.net](mailto:tblake@cityoffremont.net).

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

October 5, 2007

City Council  
City of Fremont  
Fremont, Michigan

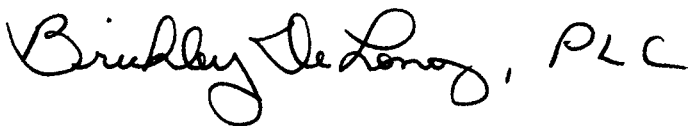
We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fremont as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fremont's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fremont, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The managements' discussion and analysis and budgetary comparison information on pages i - ix and 32 - 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fremont's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



City of Fremont  
STATEMENT OF NET ASSETS  
June 30, 2007

ASSETS

	Governmental activities	Business-type activities	Total	Component units
<b>CURRENT ASSETS</b>				
Cash and investments	\$ 4,281,123	\$ 3,498,993	\$ 7,780,116	\$ 189,027
Receivables	148,234	355,447	503,681	-
Due from other governmental units	207,939	-	207,939	-
Internal balances	(22,568)	22,568	-	-
Due from component unit	<u>6,000</u>	<u>-</u>	<u>6,000</u>	<u>-</u>
Total current assets	4,620,728	3,877,008	8,497,736	189,027
<b>NONCURRENT ASSETS</b>				
Restricted assets	672,396	-	672,396	-
Capital assets, net				
Nondepreciable	3,861,195	240,698	4,101,893	-
Depreciable	10,225,113	9,004,259	19,229,372	-
Bond issue costs, net	33,543	-	33,543	-
Special assessments receivable	<u>120,100</u>	<u>-</u>	<u>120,100</u>	<u>-</u>
Total noncurrent assets	<u>14,912,347</u>	<u>9,244,957</u>	<u>24,157,304</u>	<u>-</u>
Total assets	19,533,075	13,121,965	32,655,040	189,027

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued liabilities	324,553	23,311	347,864	4,248
Due to primary government	-	-	-	6,000
Deferred revenue	22,708	-	22,708	-
Bonds and other obligations, due within one year	<u>220,893</u>	<u>11,000</u>	<u>231,893</u>	<u>-</u>
Total current liabilities	568,154	34,311	602,465	10,248
<b>NONCURRENT LIABILITIES</b>				
Bonds and other obligations, less amounts due within one year	<u>1,734,932</u>	<u>15,769</u>	<u>1,750,701</u>	<u>-</u>
Total liabilities	<u>2,303,086</u>	<u>50,080</u>	<u>2,353,166</u>	<u>10,248</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	13,060,713	9,244,957	22,305,670	-
Restricted for:				
Streets and highways	819,532	-	819,532	-
Perpetual care - nonexpendable	296,286	-	296,286	-
Other projects	98,903	-	98,903	-
Unrestricted	<u>2,954,555</u>	<u>3,826,928</u>	<u>6,781,483</u>	<u>178,779</u>
Total net assets	<u>\$ 17,229,989</u>	<u>\$ 13,071,885</u>	<u>\$ 30,301,874</u>	<u>\$ 178,779</u>

The accompanying notes are an integral part of this statement.

City of Fremont  
STATEMENT OF ACTIVITIES  
For the year ended June 30, 2007

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Primary Government			Component units
					Governmental activities	Business-type activities	Total	
Primary government								
Governmental activities								
General government	\$ 774,365	\$ 144,830	\$ 37,507	\$ 208,450	\$ (383,578)	\$ -	\$ (383,578)	\$ -
Public safety	1,194,744	199,746	19,847	9,183	(965,968)	-	(965,968)	-
Public works	1,533,330	381,652	364,382	469,798	(317,498)	-	(317,498)	-
Community and economic development	125,994	-	-	-	(125,994)	-	(125,994)	-
Culture and recreation	206,571	105,910	24,453	-	(76,208)	-	(76,208)	-
Interest on long-term debt	53,272	-	-	-	(53,272)	-	(53,272)	-
Total governmental activities	3,888,276	832,138	446,189	687,431	(1,922,518)	-	(1,922,518)	-
Business-type activities								
Sewer	579,213	498,486	-	-	-	(80,727)	(80,727)	-
Water	447,108	759,340	-	2,100	-	314,332	314,332	-
Total business-type activities	1,026,321	1,257,826	-	2,100	-	233,605	233,605	-
Total primary government	\$ 4,914,597	\$ 2,089,964	\$ 446,189	\$ 689,531	(1,922,518)	233,605	(1,688,913)	-
Component units								
Downtown Development Authority	\$ 480,244	\$ -	\$ 135,000	\$ 85,000	-	-	-	(260,244)
Local Development Finance Authority	33,643	-	-	-	-	-	-	(33,643)
Total component units	\$ 513,887	\$ -	\$ 135,000	\$ 85,000	-	-	-	(293,887)
General revenues								
Property taxes					2,152,128	-	2,152,128	250,628
Franchise fees					36,972	-	36,972	-
Grants and contributions not restricted to specific programs					408,610	-	408,610	-
Unrestricted investment earnings					264,699	120,470	385,169	7,573
Miscellaneous					3,765	-	3,765	718
Gain on sale of capital assets					28,683	-	28,683	-
Transfers					(61,357)	61,357	-	-
Total general revenues and transfers					2,833,500	181,827	3,015,327	258,919
Change in net assets					910,982	415,432	1,326,414	(34,968)
Net assets at July 1, 2006					16,319,007	12,656,453	28,975,460	213,747
Net assets at June 30, 2007					\$ 17,229,989	\$ 13,071,885	\$ 30,301,874	\$ 178,779

The accompanying notes are an integral part of this statement.

City of Fremont  
**BALANCE SHEET**  
Governmental Funds  
June 30, 2007

	General Fund	Major Streets Fund	Local Improvement Fund	Capital Projects Fund	Other governmental funds	Total governmental funds
<b>ASSETS</b>						
Cash and investments	\$ 1,613,453	\$ 605,438	\$ 595,367	\$ 1,052,380	\$ 466,291	\$ 4,332,929
Receivables						
Accounts	84,863	-	-	49,690	-	134,553
Special assessments	-	-	133,781	-	-	133,781
Due from other governmental units	129,667	64,280	-	-	13,992	207,939
Due from component unit	6,000	-	-	-	-	6,000
Advances to other funds	-	-	59,194	-	-	59,194
Total assets	<u>\$ 1,833,983</u>	<u>\$ 669,718</u>	<u>\$ 788,342</u>	<u>\$ 1,102,070</u>	<u>\$ 480,283</u>	<u>\$ 4,874,396</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities</b>						
Accounts payable	\$ 50,437	\$ 850	\$ -	\$ 215,230	\$ -	\$ 266,517
Accrued liabilities	46,767	145	-	-	145	47,057
Deferred revenue	22,708	-	133,781	-	-	156,489
Advances from other funds	59,194	-	-	-	-	59,194
Total liabilities	179,106	995	133,781	215,230	145	529,257
<b>Fund balances</b>						
<b>Reserved for:</b>						
Advances	-	-	59,194	-	-	59,194
Debt service	-	-	-	-	30,988	30,988
Capital projects	-	-	-	886,840	-	886,840
Perpetual care	-	-	-	-	296,286	296,286
Other	98,903	-	-	-	-	98,903
<b>Unreserved</b>						
<b>Undesignated</b>						
General Fund	1,555,974	-	-	-	-	1,555,974
Special revenue funds	-	668,723	595,367	-	152,864	1,416,954
Total fund balances	<u>1,654,877</u>	<u>668,723</u>	<u>654,561</u>	<u>886,840</u>	<u>480,138</u>	<u>4,345,139</u>
Total liabilities and fund balances	<u>\$ 1,833,983</u>	<u>\$ 669,718</u>	<u>\$ 788,342</u>	<u>\$ 1,102,070</u>	<u>\$ 480,283</u>	<u>\$ 4,874,396</u>

The accompanying notes are an integral part of this statement.



City of Fremont  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS**  
 June 30, 2007

Total fund balance—governmental funds	\$	4,345,139
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Amounts reported for governmental activities in the Statement of Net Assets  
 are different because:

Capital assets used in governmental activities are not financial resources and  
 are not reported in the governmental funds.

Cost of capital assets	\$ 20,945,141	
Accumulated depreciation	<u>(7,839,028)</u>	13,106,113

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	35,114	
Accumulated amortization	<u>(1,571)</u>	33,543

Accrued interest in governmental activities is not reported in the governmental funds.		(10,600)
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Special assessment revenue is not recognized until it is receivable in the current period and, therefore, is shown as deferred revenue in the governmental funds.		133,781
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Long-term liabilities in governmental activities are not due and payable in the  
 current period and are not reported in the governmental funds.

Bonds and notes payable	(1,675,641)	
Compensated absences	<u>(224,291)</u>	(1,899,932)

Internal service funds are used by management to charge the costs of certain activities to  
 individual funds. The assets and liabilities of the internal service funds are reported with  
 governmental activities in the Statement of Net Assets.

		<u>1,521,945</u>
Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>17,229,989</u></u>

The accompanying notes are an integral part of this statement.

City of Fremont  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Governmental Funds  
For the year ended June 30, 2007

	General Fund	Major Streets Fund	Local Improvement Fund	Capital Projects Fund	Other governmental funds	Total governmental funds
<b>REVENUES</b>						
Property taxes	\$ 2,062,228	\$ -	\$ -	\$ -	\$ -	\$ 2,062,228
Licenses and permits	39,397	-	-	-	-	39,397
Intergovernmental revenues						
Federal	9,183	-	-	124,560	-	133,743
State	413,465	287,776	-	22,120	99,447	822,808
Local	30,000	-	-	257,620	259,385	547,005
Charges for services	485,751	-	-	-	16,600	502,351
Fines and forfeitures	24,849	-	-	-	-	24,849
Investment earnings	154,096	20,545	31,797	46,281	16,276	268,995
Other	257,992	92,311	61,681	-	-	411,984
Total revenues	3,476,961	400,632	93,478	450,581	391,708	4,813,360
<b>EXPENDITURES</b>						
Current						
General government	540,699	-	-	-	-	540,699
Public safety	876,630	-	-	-	-	876,630
Public works	534,579	138,217	-	580	68,599	741,975
Community and economic development	88,276	-	-	-	-	88,276
Culture and recreation	122,941	-	-	4,193	-	127,134
Other governmental functions	694,335	-	-	-	-	694,335
Debt service						
Principal	-	-	-	-	200,000	200,000
Interest and fees	3,485	-	-	-	34,482	37,967
Bond issuance costs	-	-	-	35,114	-	35,114
Capital outlay	87,056	-	-	1,576,846	-	1,663,902
Total expenditures	2,948,001	138,217	-	1,616,733	303,081	5,006,032
Excess of revenues over (under) expenditures	528,960	262,415	93,478	(1,166,152)	88,627	(192,672)
<b>OTHER FINANCING SOURCES (USES)</b>						
Long-term debt issued	-	-	-	1,700,000	-	1,700,000
Discount on long-term debt issued	-	-	-	(25,500)	-	(25,500)
Transfers in	35,287	-	-	315,168	114,500	464,955
Transfers out	(142,285)	(116,000)	(102,525)	-	(185,287)	(546,097)
Total other financing sources (uses)	(106,998)	(116,000)	(102,525)	1,989,668	(70,787)	1,593,358
Net change in fund balances	421,962	146,415	(9,047)	823,516	17,840	1,400,686
Fund balances at July 1, 2006	1,232,915	522,308	663,608	63,324	462,298	2,944,453
Fund balances at June 30, 2007	\$ 1,654,877	\$ 668,723	\$ 654,561	\$ 886,840	\$ 480,138	\$ 4,345,139

The accompanying notes are an integral part of this statement.

City of Fremont  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2007

Net change in fund balances—total governmental funds	\$	1,400,686
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$	(773,219)	
Capital outlay		1,663,902	
Bond issuance costs		<u>35,114</u>	925,797

Debt proceeds are an other financing source in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets.		(1,674,500)
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Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		198,859
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Accrued interest on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.		(10,600)
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		3,412
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Governmental funds recognize special assessments as revenue as they become current; however, they are recognized in full when levied in the Statement of Net Assets.		(22,665)
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net change of the internal service funds is reported with governmental activities.		<u>89,993</u>
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Change in net assets of governmental activities	\$	<u><u>910,982</u></u>
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The accompanying notes are an integral part of this statement.

City of Fremont  
**STATEMENT OF NET ASSETS**  
 Proprietary Funds  
 June 30, 2007

ASSETS

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service fund
	Sewer	Water	Total	
CURRENT ASSETS				
Cash and investments	\$ 1,472,887	\$ 2,026,106	\$ 3,498,993	\$ 620,590
Accounts receivable	<u>159,859</u>	<u>195,588</u>	<u>355,447</u>	<u>-</u>
Total current assets	1,632,746	2,221,694	3,854,440	620,590
NONCURRENT ASSETS				
Capital assets				
Land	228,972	11,726	240,698	-
Utility systems	9,091,732	5,364,763	14,456,495	-
Equipment	100,418	35,286	135,704	2,437,654
Construction in progress	3,344	3,344	6,688	-
Less accumulated depreciation	<u>(4,007,166)</u>	<u>(1,587,462)</u>	<u>(5,594,628)</u>	<u>(1,457,459)</u>
Total noncurrent assets	<u>5,417,300</u>	<u>3,827,657</u>	<u>9,244,957</u>	<u>980,195</u>
Total assets	7,050,046	6,049,351	13,099,397	1,600,785
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	5,573	6,020	11,593	-
Accrued liabilities	8,010	3,708	11,718	379
Bonds and other obligations, due within one year	<u>3,000</u>	<u>8,000</u>	<u>11,000</u>	<u>55,893</u>
Total current liabilities	16,583	17,728	34,311	56,272
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	<u>2,732</u>	<u>13,037</u>	<u>15,769</u>	<u>-</u>
Total liabilities	<u>19,315</u>	<u>30,765</u>	<u>50,080</u>	<u>56,272</u>
NET ASSETS				
Invested in capital assets, net of related debt	5,417,300	3,827,657	9,244,957	924,302
Unrestricted	<u>1,613,431</u>	<u>2,190,929</u>	<u>3,804,360</u>	<u>620,211</u>
Total net assets	<u>\$ 7,030,731</u>	<u>\$ 6,018,586</u>	13,049,317	<u>\$ 1,544,513</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>22,568</u>	
Net assets of business-type activities			<u>\$ 13,071,885</u>	

The accompanying notes are an integral part of this statement.

City of Fremont  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
 Proprietary Funds  
 For the year ended June 30, 2007

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service fund
	Sewer	Water	Total	
REVENUES				
Charges for services	\$ 498,486	\$ 759,340	\$ 1,257,826	\$ 400,342
OPERATING EXPENSES				
Administration	83,303	84,737	168,040	31,186
Operations	255,391	274,465	529,856	122,351
Depreciation	240,968	88,085	329,053	221,664
Total operating expenses	579,662	447,287	1,026,949	375,201
Operating income (loss)	(81,176)	312,053	230,877	25,141
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	52,009	68,461	120,470	22,489
Connection fees	-	2,100	2,100	-
Gain on sale of capital assets	-	-	-	28,683
Interest expense	-	-	-	(5,477)
Total nonoperating revenues (expenses)	52,009	70,561	122,570	45,695
Income (loss) before transfers	(29,167)	382,614	353,447	70,836
Transfers in	-	61,357	61,357	19,785
Change in net assets	(29,167)	443,971	414,804	90,621
Net assets at July 1, 2006	7,059,898	5,574,615		1,453,892
Net assets at June 30, 2007	\$ 7,030,731	\$ 6,018,586		\$ 1,544,513
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			628	
Change in net assets of business-type activities			\$ 415,432	

The accompanying notes are an integral part of this statement.

City of Fremont  
**STATEMENT OF CASH FLOWS**  
 Proprietary Funds  
 For the year ended June 30, 2007

	Business-type Activities - Enterprise funds			Governmental Activities - Internal Service Fund
	Sewer	Water	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 486,459	\$ 758,300	\$ 1,244,759	\$ -
Receipts from interfund services provided	2,077	9,245	11,322	400,342
Payments to suppliers	(69,817)	(131,022)	(200,839)	(122,351)
Payments to employees	(204,325)	(202,293)	(406,618)	(31,148)
Payment for interfund services used	(58,360)	(23,211)	(81,571)	-
Net cash provided by operating activities	156,034	411,019	567,053	246,843
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Transfers in	-	61,357	61,357	19,785
Connection fees	-	2,100	2,100	-
Purchases of capital assets	(48,761)	(238,950)	(287,711)	(175,098)
Principal paid on capital debt	-	-	-	(99,490)
Interest paid on capital debt	-	-	-	(5,477)
Proceeds from sale of capital assets	-	-	-	29,169
Net cash used for capital and related financing activities	(48,761)	(175,493)	(224,254)	(231,111)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Investment earnings	52,009	68,461	120,470	22,489
Net increase in cash and investments	159,282	303,987	463,269	38,221
Cash and investments at July 1, 2006	1,313,605	1,722,119	3,035,724	582,369
Cash and investments at June 30, 2007	\$ 1,472,887	\$ 2,026,106	\$ 3,498,993	\$ 620,590
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>				
Operating income (loss)	\$ (81,176)	\$ 312,053	\$ 230,877	\$ 25,141
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation expense	240,968	88,085	329,053	221,664
Change in assets and liabilities				
Accounts receivable	(9,950)	8,205	(1,745)	-
Accounts payable	3,555	3,309	6,864	-
Accrued liabilities	2,637	(633)	2,004	38
Net cash provided by operating activities	\$ 156,034	\$ 411,019	\$ 567,053	\$ 246,843

The accompanying notes are an integral part of this statement.

City of Fremont  
**STATEMENT OF FIDUCIARY NET ASSETS**  
Fiduciary Funds  
June 30, 2007

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and investments	\$      201,409
Receivables	1,089
Due from other governmental units	<u>          300</u>
Total assets	<u><u>\$      202,798</u></u>
 <b>LIABILITIES</b>	
Accounts payable	\$          9,030
Due to other governmental units	<u>        193,768</u>
Total liabilities	<u><u>\$      202,798</u></u>

The accompanying notes are an integral part of this statement.

City of Fremont  
**STATEMENT OF NET ASSETS**  
Discretely Presented Component Units  
June 30, 2007

ASSETS

	Downtown Development Authority	Local Development Finance Authority	Total
CURRENT ASSETS			
Cash and investments	\$ 61,804	\$ 127,223	\$ 189,027

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts payable and accrued liabilities	4,248	-	4,248
Due to primary government	6,000	-	6,000
Total liabilities	10,248	-	10,248
NET ASSETS			
Unrestricted	\$ 51,556	\$ 127,223	\$ 178,779

The accompanying notes are an integral part of this statement.



City of Fremont  
**STATEMENT OF ACTIVITIES**  
Discretely Presented Component Units  
For the year ended June 30, 2007

<i>Functions/Programs</i>	Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Program Revenue		Downtown Development Authority	Local	
		Operating grants and contributions	Capital grants and contributions		Development Finance Authority	Total
Downtown Development Authority						
Public works	\$ 91,241	\$ 50,000	\$ -	\$ (41,241)	\$ -	\$ (41,241)
Community and economic development	389,003	85,000	85,000	(219,003)	-	(219,003)
Total Downtown Development Authority	480,244	135,000	85,000	(260,244)	-	(260,244)
Local Development Finance Authority						
Public works	33,643	-	-	-	(33,643)	(33,643)
Total discretely presented component units	<u>\$ 513,887</u>	<u>\$ 135,000</u>	<u>\$ 85,000</u>	(260,244)	(33,643)	(293,887)
General revenues						
Property taxes				247,450	3,178	250,628
Unrestricted investment earnings				1,836	5,737	7,573
Miscellaneous				718	-	718
Total general revenues				250,004	8,915	258,919
Change in net assets				(10,240)	(24,728)	(34,968)
Net assets at July 1, 2006				61,796	151,951	213,747
Net assets at June 30, 2007				<u>\$ 51,556</u>	<u>\$ 127,223</u>	<u>\$ 178,779</u>

The accompanying notes are an integral part of this statement.

City of Fremont  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Fremont (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

***Reporting Entity***

The City is a municipal corporation governed by an elected mayor and five-member City Council and is administered by a city manager appointed by the City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government. Each discretely presented component unit has a June 30 fiscal year end unless otherwise noted.

**Blended Component Unit**

*Building Authority.* The Building Authority is appointed by the City Council and its activity is dependent on City Council actions. The Building Authority is reported as if it were part of the primary government because its sole purpose is to finance the construction of the City's public buildings. The Authority's activity is reported in the financial statements as a debt service fund.

**Discretely Presented Component Units**

*Downtown Development Authority (DDA).* The Authority's sole purpose is the collection of tax increment revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the DDA district. Board members of the DDA are appointed by the City, and the Authority is fiscally dependent on the City since the Council approves the DDA budget and must approve any debt issuance. The DDA is presented as a governmental fund type.

*Local Development Financing Authority (LDFA).* The Authority's sole purpose is the collection of tax increment revenues, the issuance and repayment of debt and construction of public facilities in the LDFA district to promote and facilitate economic growth in the City. Board members of the LDFA are appointed by the City and the Authority is fiscally dependent on the City since the Council approves the LDFA budget and must approve any debt issuance. The LDFA is presented as a governmental fund type.

*Fremont Community Joint Planning Commission (Commission).* The Commission is comprised of the City, Dayton Township, and Sheridan Charter Township. The Commission's purpose is to enable its members to cooperate on planning and zoning issues. Board members of the Commission are appointed by each of its members with the City appointing five of the thirteen total board members. All three members must approve the Commission's budget and any debt issuance. The funds and financial statements of the Commission are managed by the City. The Commission, which has a December 31 fiscal year end, began operations on January 1, 2007 and will appear in the financial statements of the City next year after it completes its first year of operations.

City of Fremont  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Government-Wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

City of Fremont  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued*

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund is used to account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of major streets within the City.

The Local Improvement Fund is used to account for amounts collected and receivable in conjunction with various special assessments for several City construction projects.

The Capital Projects Fund is used to account for the expenditure of the City's funds for major capital projects.

The City reports the following two major proprietary funds:

The Sewer Fund accounts for user charges, operating expenses and debt service of the City's sewer system.

The Water Fund accounts for user charges, operating expenses and debt service of the City's water system.

Additionally, the City reports the following fund types:

Internal Service Funds account for equipment management services provided to other funds of the government on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

City of Fremont  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued***

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

***Assets, Liabilities and Net Assets or Equity***

**Deposits and Investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

The component unit's cash and investments are maintained within the City's investment pool.

**Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

City of Fremont  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Assets, Liabilities and Net Assets or Equity—Continued*

**Receivables and Payables—Continued**

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. The City recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2006 state taxable value for real/personal property of the City totaled approximately \$140,468,000 of which approximately \$2,887,000 was captured by the DDA and approximately \$143,500 was captured by the LDFA. The ad valorem taxes levied consisted of 14 mills for the City's operating purposes. These amounts are recognized in the General Fund with captured amounts shown in the DDA and LDFA component units.

**Restricted Assets**

Certain proceeds of the 2006 Capital Improvement Bonds are classified as restricted assets on the statement of net assets because they are maintained in a separate bank account and their use is limited by applicable bond covenants.

**Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year).

City of Fremont  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Assets, Liabilities and Net Assets or Equity—Continued*

**Capital Assets—Continued**

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	10-50
Infrastructure	20
Utility systems	40-67
Vehicles and equipment	3-30

**Compensated Absences**

City employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The liability for these compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

City of Fremont  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the third Monday of May, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A public hearing is conducted at the City Hall to obtain taxpayer comments.
- c. Not later than the second regular meeting in June, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The City Manager may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

**NOTE C—DEPOSITS AND INVESTMENTS**

As of June 30, 2007, the City had the following investments:

Investment Type	Fair value	Weighted average maturity (Months)	Moody's	Percent
Money market mutual fund	\$ 91,214	1	AAA	2.0 %
External investment pool	41,007	1	not rated	0.9
External investment pool	2,868,702	1	AAA	64.4
Negotiable certificates of deposit	550,765	27	not rated	12.4
Mortgage backed securities	905,613	39	AAA	20.3
Total fair value	<u>\$ 4,457,301</u>			<u>100.0 %</u>
Portfolio weighted average maturity		<u>12</u>		



City of Fremont  
NOTES TO FINANCIAL STATEMENTS—CONTINUED  
June 30, 2007

**NOTE C—DEPOSITS AND INVESTMENTS—Continued**

The City voluntarily invests certain excess funds in external investment pools (Pools). The Pools are an external investment pool of “qualified” investments for Michigan municipalities. The Pool is not regulated nor registered with the SEC. The fair value of the City's investments is the same as the value of the Pool.

**Interest rate risk.** The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices.

**Concentration of credit risk.** The City does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5 percent of the City's investments are in mortgage-backed securities issued by the Federal Home Loan Bank and the Federal Home Loan Mortgage Corporation and negotiable certificates of deposit issued by Standard Federal Bank. These investments are 12.78 percent, 5.35 percent and 8.03 percent, respectively, of the City's investments.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2007, \$3,809,371 of the City's bank balance of \$4,509,371 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments.** The City does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Foreign currency risk.** The City is not authorized to invest in investments which have this type of risk.

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2007</u>
<b>Governmental activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 3,093,117	\$ 10,434	\$ -	\$ 3,103,551
Construction in progress	<u>900,805</u>	<u>1,478,842</u>	<u>1,622,003</u>	<u>757,644</u>
Total capital assets, not being depreciated	3,993,922	1,489,276	1,622,003	3,861,195

City of Fremont  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE D—CAPITAL ASSETS—Continued**

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<b>Governmental activities—Continued</b>				
<b>Capital assets, being depreciated:</b>				
Land improvements	\$ 288,766	\$ 410,305	\$ -	\$ 699,071
Buildings and improvements	3,513,765	497,083	-	4,010,848
Vehicles and equipment	3,044,674	183,656	109,135	3,119,195
Infrastructure	<u>11,343,919</u>	<u>880,683</u>	<u>532,116</u>	<u>11,692,486</u>
Total capital assets, being depreciated	18,191,124	1,971,727	641,251	19,521,600
<b>Less accumulated depreciation:</b>				
Land improvements	125,550	34,241	-	159,791
Buildings and improvements	1,788,062	128,073	-	1,916,135
Vehicles and equipment	1,609,439	284,990	108,648	1,785,781
Infrastructure	<u>5,420,888</u>	<u>546,008</u>	<u>532,116</u>	<u>5,434,780</u>
Total accumulated depreciation	<u>8,943,939</u>	<u>993,312</u>	<u>640,764</u>	<u>9,296,487</u>
Total capital assets, being depreciated, net	<u>9,247,185</u>	<u>978,415</u>	<u>487</u>	<u>10,225,113</u>
Capital assets, net	<u>\$ 13,241,107</u>	<u>\$ 2,467,691</u>	<u>\$ 1,622,490</u>	<u>\$ 14,086,308</u>
<b>Business-type activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 240,698	\$ -	\$ -	\$ 240,698
Construction in progress	<u>-</u>	<u>6,688</u>	<u>-</u>	<u>6,688</u>
Total capital assets, not being depreciated	240,698	6,688	-	247,386
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	3,456,339	-	-	3,456,339
Utility systems	10,719,134	281,022	-	11,000,156
Equipment	<u>135,704</u>	<u>-</u>	<u>-</u>	<u>135,704</u>
Total capital assets, being depreciated	14,311,177	281,022	-	14,592,199

City of Fremont  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE D—CAPITAL ASSETS—Continued**

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<b>Business-type activities:—Continued</b>				
<b>Less accumulated depreciation:</b>				
Buildings and improvements	\$ 2,760,967	\$ 86,588	\$ -	\$ 2,847,555
Utility systems	2,391,391	228,331	-	2,619,722
Equipment	113,218	14,133	-	127,351
Total accumulated depreciation	<u>5,265,576</u>	<u>329,052</u>	<u>-</u>	<u>5,594,628</u>
Total capital assets, being depreciated, net	<u>9,045,601</u>	<u>(48,030)</u>	<u>-</u>	<u>8,997,571</u>
Capital assets, net	<u>\$ 9,286,299</u>	<u>\$ (41,342)</u>	<u>\$ -</u>	<u>\$ 9,244,957</u>

**Depreciation**

Depreciation expense has been charged to functions as follows:

**Governmental activities:**

General government	\$ 94,916
Public safety	34,696
Public works	578,167
Culture and recreation	63,869
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets	<u>221,664</u>
	<u>\$ 993,312</u>

**Business-type activities:**

Sewer	\$ 240,968
Water	<u>88,084</u>
	<u>\$ 329,052</u>

City of Fremont  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE E—BOND ISSUANCE COSTS**

Bond issuance cost activity for the year ended December 31, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Business-type activities				
Bond issuance costs	\$ -	\$ 35,114	\$ -	\$ 35,114
Less accumulated amortization	-	1,571	-	1,571
Bond issuance costs, net	<u>\$ -</u>	<u>\$ 33,543</u>	<u>\$ -</u>	<u>\$ 33,543</u>

**Amortization**

Amortization expense has been charged to interest.

**NOTE F—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances as of June 30, 2007 is as follows:

**Advances to/from other funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Local Improvement Fund	\$ 59,194	Operational loan

**Interfund transfers:**

Transfers in:							
	General Fund	Capital Projects Fund	Water Fund	Equipment Fund	Other governmental funds	Total	Purpose
Transfers out:							
General Fund	\$ -	\$ 70,000	\$ -	\$ 19,785	\$ 52,500	\$ 142,285	Capital projects
Major Streets							
Fund	-	54,000	-	-	62,000	116,000	Capital projects
Local Improvement							
Fund	-	41,168	61,357	-	-	102,525	Capital projects
Other governmental							Operations and
funds	35,287	150,000	-	-	-	185,287	capital projects
	<u>\$ 35,287</u>	<u>\$ 315,168</u>	<u>\$ 61,357</u>	<u>\$ 19,785</u>	<u>\$ 114,500</u>	<u>\$ 546,097</u>	

City of Fremont  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE F—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS—Continued**

*Component unit transactions:*

During the year the DDA and LDFA contributed significant amounts to the City as follows:

	<u>Governmental activities</u>
<b>Capital activities</b>	
LDFA	\$ 33,178
<b>Operating activities</b>	
DDA	\$ 316,753

**NOTE G—DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, all of the deferred revenue in the governmental funds was from special assessments, which are unavailable for current year expenditures.

**NOTE H—LONG-TERM DEBT**

**Summary of Changes in Long-Term Liabilities**

The following is a summary of long-term liabilities activity for the City for the year ended June 30, 2007.

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>	<u>Due within one year</u>
<b>Governmental activities:</b>					
General obligation bonds	\$ 200,000	\$ -	\$ 200,000	\$ -	\$ -
Capital improvement bonds	-	1,674,500	(1,141)	1,675,641	75,000
Installment purchase agreements	155,383	-	99,490	55,893	55,893
Compensated absences	<u>227,703</u>	<u>85,610</u>	<u>89,022</u>	<u>224,291</u>	<u>90,000</u>
Governmental activity long-term liabilities	<u>\$ 583,086</u>	<u>\$ 1,760,110</u>	<u>\$ 387,371</u>	<u>\$ 1,955,825</u>	<u>\$ 220,893</u>
<b>Business-type activities:</b>					
Compensated absences	<u>\$ 26,769</u>	<u>\$ 19,931</u>	<u>\$ 19,931</u>	<u>\$ 26,769</u>	<u>\$ 11,000</u>

City of Fremont  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE H—LONG-TERM DEBT—Continued**

**Summary of Changes in Long-Term Liabilities—Continued**

**Capital improvement bonds:**

\$1,700,000 - 2006 Capital Improvement Bonds due in annual installments of \$75,000 to \$150,000 through November 2021; interest at rates varying from 3.625% to 3.875%	\$ 1,700,000
Less bond discount	(24,359)

**Installment purchase agreements:**

\$166,517 - 2005 Installment purchase agreement for 2005 Fire Tanker/Pump; final payment of \$55,893 due June 2008; interest at 3.92%	55,893
	<u>1,731,534</u>

**Compensated absences**

<u>224,291</u>
<u>\$ 1,955,825</u>

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

All bonds and loans payable are backed by the full faith and credit of the City.

The City was in compliance in all material respects with all various bond indentures at June 30, 2007.

Annual debt service requirements to maturity for debt outstanding as of June 30, 2007 follows:

Year ending June 30,	Governmental activities	
	Principal	Interest
2008	\$ 130,893	\$ 64,388
2009	75,000	59,478
2010	75,000	56,759
2011	100,000	53,588
2012	100,000	49,963
2013-2017	575,000	190,820
2018-2022	700,000	92,721
	<u>\$ 1,755,893</u>	<u>\$ 567,717</u>

City of Fremont  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE I—OTHER INFORMATION**

**Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages liability and property risk by participating in the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally insuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCSIF for its workers' compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally insuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

**Post-Retirement Health Care**

The City has agreed to provide post-retirement health care to certain employees after they retire for three years or until the retiree reaches the age of 65.

As of year-end, there were four retired employees receiving benefits. The City finances the Plan on a pay-as-you-go basis. For the year ended June 30, 2007, the City's post-retirement health care cost under the Plan was approximately \$8,211.

City of Fremont  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE I—OTHER INFORMATION—Continued**

**Commitments**

At June 30, 2007, the City had entered into various agreements for the Fremont Market Place project. The City has spent \$998,003 to date on the project with remaining commitments of \$253,920.

**Leases**

The City leases land, vehicles and equipment under noncancelable operating leases. The costs for such leases were approximately \$5,800. The future minimum lease payments for these leases are as follows:

Year ending June 30,	Amount
2008	\$ 3,000
2009	2,400
	<u>\$ 5,400</u>

The City also received approximately \$20,800 for the year ended June 30, 2007 from noncancelable operating leases for land use and hanger rentals which has been recorded as rental income. The future minimum rental income for these leases is as follows:

Year ending June 30,	Amount
2008	\$ 23,000
2009	22,000
2010	22,000
2011	18,000
2012	18,000
2013-2017	4,200
2018-2022	4,200
2023-2027	4,200
2028-2032	4,200
2033-2034	1,500
	<u>\$ 121,300</u>



City of Fremont  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE J—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS**

**Pension Plan**

*Plan Description.* The City of Fremont is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the City of Fremont. A copy of the complete financial report and required supplemental information can be obtained by writing to:

City of Fremont  
101 E. Main Street  
Fremont, MI 49412

*Funding Policy.* Plan members are not required to contribute to the plan. The City is required to contribute at an actuarially-determined rate depending upon position from 14.36 to 20.6 percent of covered wages.

*Annual Pension Cost.* For the year ended June 30, 2007, the City's annual pension cost was approximately \$243,000 which the City contributed. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

**Three-Year Trend Information**

Year ended	Approximate Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/05	\$ 223,000	100 %	\$ -
06/30/06	230,000	100	-
06/30/07	243,000	100	-

**REQUIRED SUPPLEMENTARY INFORMATION**

*Schedule of Funding Progress*

*(Dollar amounts in thousands)*

Actuarial valuation date	Actuarial value of assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
12/31/04	\$ 4,815	\$ 6,592	\$ (1,777)	73 %	\$ 1,255	142 %
12/31/05	5,098	7,016	(1,918)	73	1,332	144
12/31/06	5,457	7,480	(2,023)	73	1,331	152

City of Fremont  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2007

**NOTE K—ECONOMIC DEPENDENCY**

The City's General, Water and Sewer funds have a significant economic dependence on a local corporation. During the year ended June 30, 2007, the corporation's billings for property taxes approximated 22 percent of total property taxes in the General Fund and the corporation's billings for utilities approximated 56 and 5 percent of total billings in the Water Fund and Sewer Fund, respectively.

**NOTE L—SUBSEQUENT EVENTS**

In August 2007, the City purchased a building for \$100,000 for economic development purposes.

In September 2007, the City approved the purchase of a street sweeper for approximately \$125,000.

## **REQUIRED SUPPLEMENTARY INFORMATION**

City of Fremont  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
General Fund  
For the year ended June 30, 2007

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 2,012,500	\$ 2,012,500	\$ 2,062,228	\$ 49,728
Licenses and permits	37,000	37,000	39,397	2,397
Intergovernmental revenues				
Federal	12,308	12,308	9,183	(3,125)
State	418,900	418,900	413,465	(5,435)
Local	40,000	40,000	30,000	(10,000)
Charges for services	467,000	475,023	485,751	10,728
Fines and forfeitures	35,500	35,500	24,849	(10,651)
Investment earnings	90,000	90,000	154,096	64,096
Other	178,300	192,055	257,992	65,937
Total revenues	3,291,508	3,313,286	3,476,961	163,675
EXPENDITURES				
Current				
General government				
Legislative	15,500	15,500	13,326	2,174
Executive	85,350	85,350	81,232	4,118
Elections	9,400	9,400	5,887	3,513
General administration	3,500	3,500	3,710	(210)
Clerk	96,300	96,300	91,696	4,604
Treasurer	58,375	58,375	56,429	1,946
Board of review	900	900	840	60
Assessor	51,700	51,700	42,946	8,754
Cemetery	88,350	88,350	69,887	18,463
Attorney	20,000	20,000	15,348	4,652
Building and grounds	112,500	119,955	126,032	(6,077)
Public relations	32,000	37,000	33,366	3,634
Public safety				
Police department	599,925	616,925	594,971	21,954
Fire department	257,750	274,050	281,659	(7,609)
Public works				
Streets, street lighting and sidewalks	297,000	312,000	312,256	(256)
Sanitation	211,000	218,030	222,323	(4,293)
Community and economic development				
Planning and zoning	76,350	76,350	62,788	13,562
Other	26,083	26,083	25,488	595
Culture and recreation				
Parks and recreation	126,000	140,200	122,941	17,259
Other governmental functions				
Employee fringe benefits and other items	616,800	591,800	598,418	(6,618)
Airport operations	51,500	51,500	45,917	5,583
Parking systems	90,000	50,000	50,000	-
Debt service				
Interest and fees	3,485	3,485	3,485	-
Capital outlay	101,500	111,300	87,056	24,244
Total expenditures	3,031,268	3,058,053	2,948,001	110,052
Excess of revenues over (under) expenditures	260,240	255,233	528,960	273,727
OTHER FINANCING SOURCES (USES)				
Transfers in	31,500	31,500	35,287	3,787
Transfers out	(112,860)	(192,845)	(142,285)	50,560
Total other financing sources (uses)	(81,360)	(161,345)	(106,998)	54,347
Net change in fund balance	\$ 178,880	\$ 93,888	421,962	\$ 328,074
Fund balance at July 1, 2006			1,232,915	
Fund balance at June 30, 2007			\$ 1,654,877	

City of Fremont  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
Major Streets Fund  
For the year ended June 30, 2007

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues - State	\$ 290,000	\$ 290,000	\$ 287,776	\$ (2,224)
Investment earnings	10,000	10,000	20,545	10,545
Other	52,000	52,000	92,311	40,311
Total revenues	352,000	352,000	400,632	48,632
EXPENDITURES				
Current				
Public works	176,600	176,600	138,217	38,383
Excess of revenues over (under) expenditures	175,400	175,400	262,415	87,015
OTHER FINANCING USES				
Transfers out	(116,500)	(116,000)	(116,000)	-
Net change in fund balance	\$ 58,900	\$ 59,400	146,415	\$ 87,015
Fund balance at July 1, 2006			522,308	
Fund balance at June 30, 2007			\$ 668,723	

City of Fremont  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**

Local Improvement Fund  
For the year ended June 30, 2007

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Investment earnings	\$ 25,485	\$ 25,485	\$ 31,797	\$ 6,312
Other	<u>-</u>	<u>-</u>	<u>61,681</u>	<u>61,681</u>
Total revenues	25,485	25,485	93,478	67,993
OTHER FINANCING USES				
Transfers out	<u>(137,000)</u>	<u>(137,000)</u>	<u>(102,525)</u>	<u>34,475</u>
Net change in fund balance	<u>\$ (111,515)</u>	<u>\$ (111,515)</u>	(9,047)	<u>\$ 102,468</u>
Fund balance at July 1, 2006			<u>663,608</u>	
Fund balance at June 30, 2007			<u>\$ 654,561</u>	

## **OTHER SUPPLEMENTAL INFORMATION**

City of Fremont  
**COMBINING BALANCE SHEET**  
Other Governmental Funds  
June 30, 2007

	Total other governmental funds	Special Revenue		Debt Service		Permanent Cemetery Perpetual Care
		Local Streets	Arboretum Park	Building Authority	Construction Bond	
ASSETS						
Cash and investments	\$ 466,291	\$ 136,962	\$ 2,055	\$ 30,261	\$ 727	\$ 296,286
Due from other governmental units	13,992	13,992	-	-	-	-
Total assets	<u>\$ 480,283</u>	<u>\$ 150,954</u>	<u>\$ 2,055</u>	<u>\$ 30,261</u>	<u>\$ 727</u>	<u>\$ 296,286</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accrued liabilities	\$ 145	\$ 145	\$ -	\$ -	\$ -	\$ -
Fund balances						
Reserved for:						
Debt service	30,988	-	-	30,261	727	-
Perpetual care	296,286	-	-	-	-	296,286
Unreserved						
Undesignated	152,864	150,809	2,055	-	-	-
Total fund balances	<u>480,138</u>	<u>150,809</u>	<u>2,055</u>	<u>30,261</u>	<u>727</u>	<u>296,286</u>
Total liabilities and fund balances	<u>\$ 480,283</u>	<u>\$ 150,954</u>	<u>\$ 2,055</u>	<u>\$ 30,261</u>	<u>\$ 727</u>	<u>\$ 296,286</u>



City of Fremont  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Other Governmental Funds  
For the year ended June 30, 2007

	Total other governmental funds	Special Revenue		Debt Service		Permanent Cemetery Perpetual Care
		Local Streets	Arboretum Park	Building Authority	Construction Bond	
<b>REVENUES</b>						
Intergovernmental revenues						
State	\$ 99,447	\$ 99,447	\$ -	\$ -	\$ -	\$ -
Local	259,385	-	24,453	208,450	26,482	-
Charges for services	16,600	-	-	-	-	16,600
Investment earnings	16,276	2,755	581	1,379	727	10,834
Total revenues	391,708	102,202	25,034	209,829	27,209	27,434
<b>EXPENDITURES</b>						
Current						
Public works	68,599	68,599	-	-	-	-
Debt service						
Principal	200,000	-	-	200,000	-	-
Interest and fees	34,482	-	-	8,000	26,482	-
Total expenditures	303,081	68,599	-	208,000	26,482	-
Excess of revenues over expenditures	88,627	33,603	25,034	1,829	727	27,434
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	114,500	114,500	-	-	-	-
Transfers out	(185,287)	(150,000)	(24,453)	-	-	(10,834)
Total other financing sources (uses)	(70,787)	(35,500)	(24,453)	-	-	(10,834)
Net change in fund balances	17,840	(1,897)	581	1,829	727	16,600
Fund balances at July 1, 2006	462,298	152,706	1,474	28,432	-	279,686
Fund balances at June 30, 2007	\$ 480,138	\$ 150,809	\$ 2,055	\$ 30,261	\$ 727	\$ 296,286

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

October 5, 2007

City Commission  
City of Fremont  
Fremont, Michigan

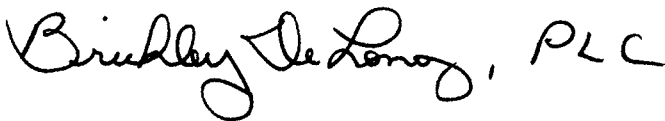
In planning and performing our audit of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fremont as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Fremont's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fremont's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Fremont's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, we identified and we have attached a deficiency in internal control that we considered to be a significant deficiency.

This communication is intended solely for the information and use of management, the City Council, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

## **SIGNIFICANT DEFICIENCY**

Recommendation 1: The Fremont Community Joint Planning Commission should have the same fiscal year end as the City of Fremont.

During our audit, we noted that the Fremont Community Joint Planning Commission (Commission), a new component unit of the City, was created on January 1, 2007. The Commission has a fiscal year end of December 31 while the City has a fiscal year end of June 30. Maintaining a portion of the City's financial reporting entity with a different year end than the rest of the City could potentially cause unnecessary confusion and increase the likelihood of a misstatement.

The Commission should consider changing its fiscal year end to June 30 to match the City's fiscal year to simplify reporting matters and to reduce the possibility of misstatements.